POLESTAR Insurance Company

ANNUAL REPORT 2020

What we strive for:
Remaining loyal to our commitment to become the preferred company by providing our customers and partners with Attentive, Agile & Accurate services closely followed by tangible benefits.

Vision

To become a capable and professional leading underwriter recognized for its professionalism, integrity and innovation, making the local market as its home ground with credible and quality service!

Mission

To provide a package of insurance services at the level of international standards to protect interests of our clients.

Primary Goal

To always make the right choices in terms of productivity, risk selection, and pricing.

Core Value

Professionalism, Obligation, Loyalty, Efficiency, Specialization, Transparency, Accountability, Reliability

Business Attitude

Aspiration for greater successes
Technological innovation
Fresh idea & Approach

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MESSAGE FROM THE CEO

Dear Sirs,

On behalf of Polestar Insurance Company (PIC), it gives me a great pleasure to inform the performance of our Company during the financial year as well as to present our Company's Annual Report 2020.

The last year 2020 was a year of struggle and advance when our country mobilized all the resources and potentialities in order to protect the lives and properties of the people against the global pandemic which was followed closely by natural calamities and stabilize and improve their life in the best possible way.

We completely healed the effects of manifold natural disasters during the year by waging a nationwide struggle for rehabilitation and provided the affected people with their homes of happiness.

Thus, these are the remarkable achievements we made in 2020.

In keeping with the country's ever-increasing capability to cope with calamities and the steady progress of the construction of powerful socialist state, our Company achieved some success last year by virtue of highly innovative business strategy and enterprising working activities and management.

During the year under review, the Company secured a total Gross Premium Written (GPW) of KPW 3,351 million, representing an increase of 4.3% compared to that of the previous year 2019, while it made a net profit of KPW 226 million.

The number of travelers and the whole size of export-import goods decreased sharply as the frontier blockade measures were adopted to prevent an inflow of pandemic from abroad.

Therefore, the travel insurance and credit insurance were affected to some degree with their premium income dropped down by 41.3% and 12.9% respectively.

However, the majority lines of the Company's portfolio such as fire insurance and engineering insurance recorded a 9.2% and 16.9% increase respectively in premium income so that they continued to play a big part in the constant growth of the Company's GPW for five consecutive years.

A large number of dwelling houses and public buildings in several areas across the country were totally or partially destroyed by the natural calamities such as heavy rains and Typhoons No. 8, 9 and 10 which occurred between August and October 2020.

We subsequently suffered a considerable insurance loss. We conducted a detailed survey of loss and immediately effected payment of compensation to the policyholders affected.

Thus, we could win the hearts and minds of the customers and availed ourselves of this opportunity to expand our share in the local market.

This year a vigorous struggle for the erection of 10,000 flats is being waged in Pyongyang by the state measure, while the construction of new manufacturing base and modernization of production process is in full swing in all domains of the national economy.

In the circumstances, we would ensure the constant growth of premium income by innovating our insurance business.

On behalf of Executive Committee of Management of PIC, I would like to take this opportunity to pay tribute to all staff of the Company who dedicated themselves full-time to the Company's business development with a spirit of devotion.

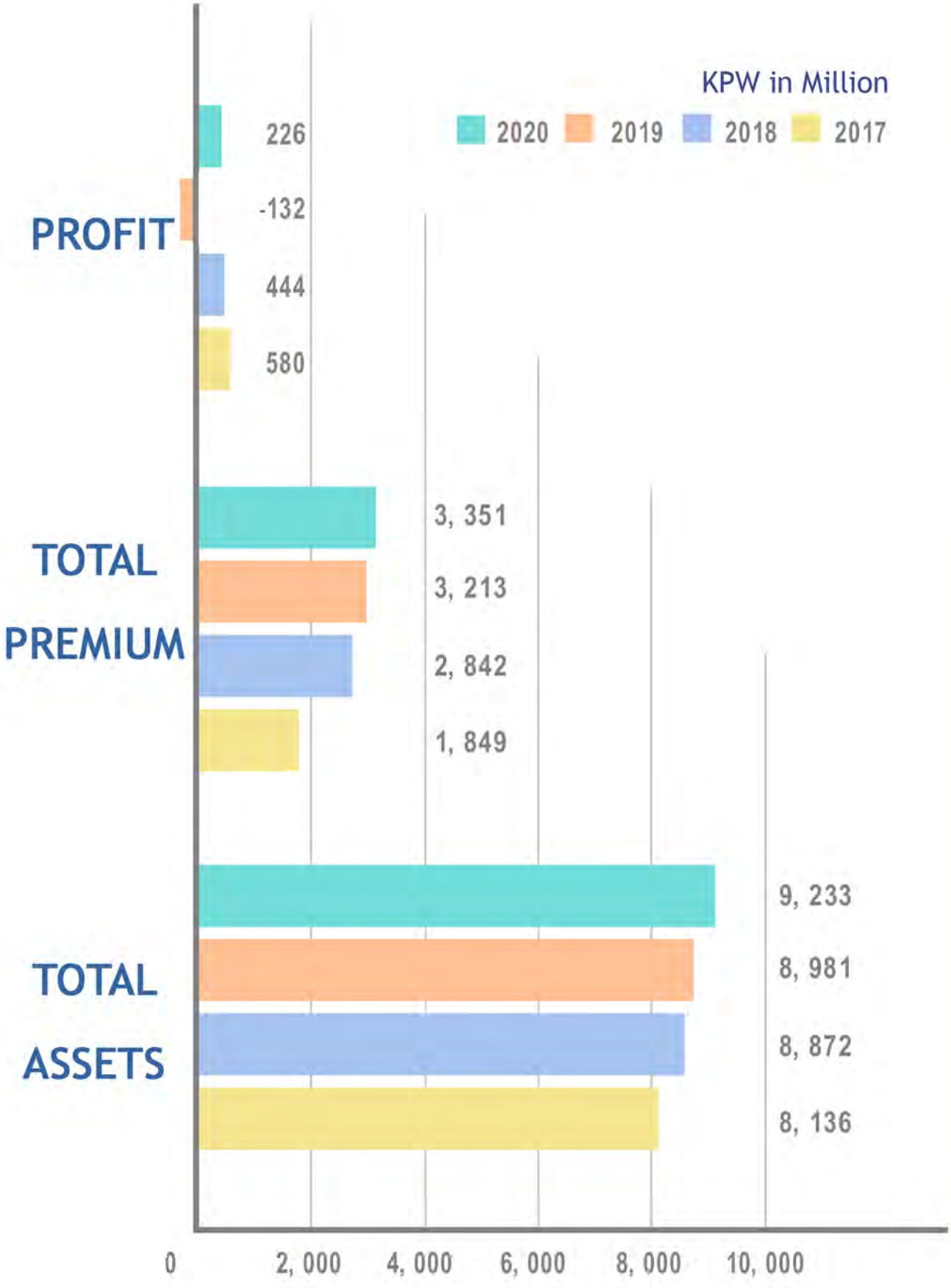
And we would express our gratitude to partners and clients both at home and abroad who cooperated actively with us wishing them greater success in 2021.

Kim Kyong Hun
CEO, Polestar Insurance Company

2020 FINANCIAL HIGHLIGHTS

KPW in Million

ITEM	2020	2019	2018	2017
Total Assets	9,233	8,981	8,872	8,136
Total Equity	8,141	7,914	8,046	7,602
Paid-up Capital	3,000	3,000	3,000	3,000
Gross Premium Written	3,351	3,213	2,842	1,849
Net Earned Premium	3,134	2,820	2,516	1,568
Insurance Contract Liabilities	1,086	973	749	486
Cash and Cash Equivalents	8,911	8,765	8,659	7,908
Total Liabilities	1,092	1,066	826	534
Net Profit/Net Loss	226	(132)	444	580
Combined Loss Ratio (%)	85	100	69	43


KPW in Million
2020
2019
2018
2017
PROFIT
226
-132
444
580
TOTAL PREMIUM
3, 351
3, 213
2, 842
1, 849
TOTAL ASSETS
9, 233
8, 981
8, 872
8, 136
0
2, 000
4, 000
6, 000
8, 000
10, 000

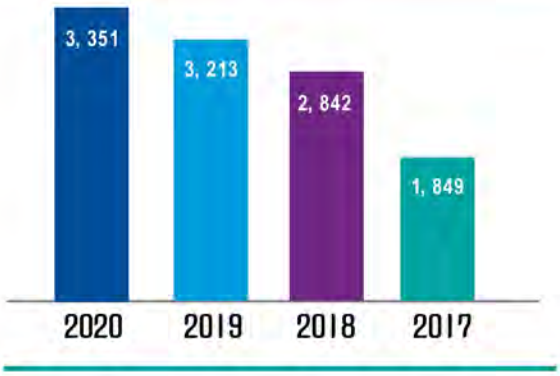
ASSESSMENT OF THE COMPANY IN 2020

1. Gross Premium Written

The Company's insurance portfolio is largely composed of direct insurance business in the domestic market.

Turnover of the Company grew to KPW 3,351 million during the year under review, which showed an increase of KPW 137.8 million (4%) from KPW 3,213.2 million in 2019.

KPW in Million

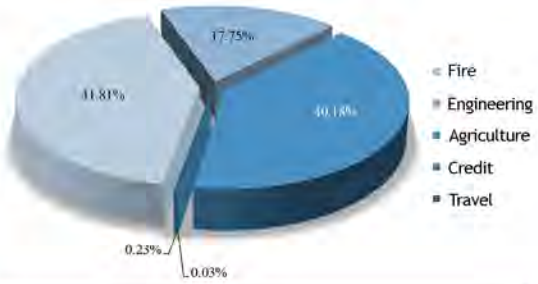


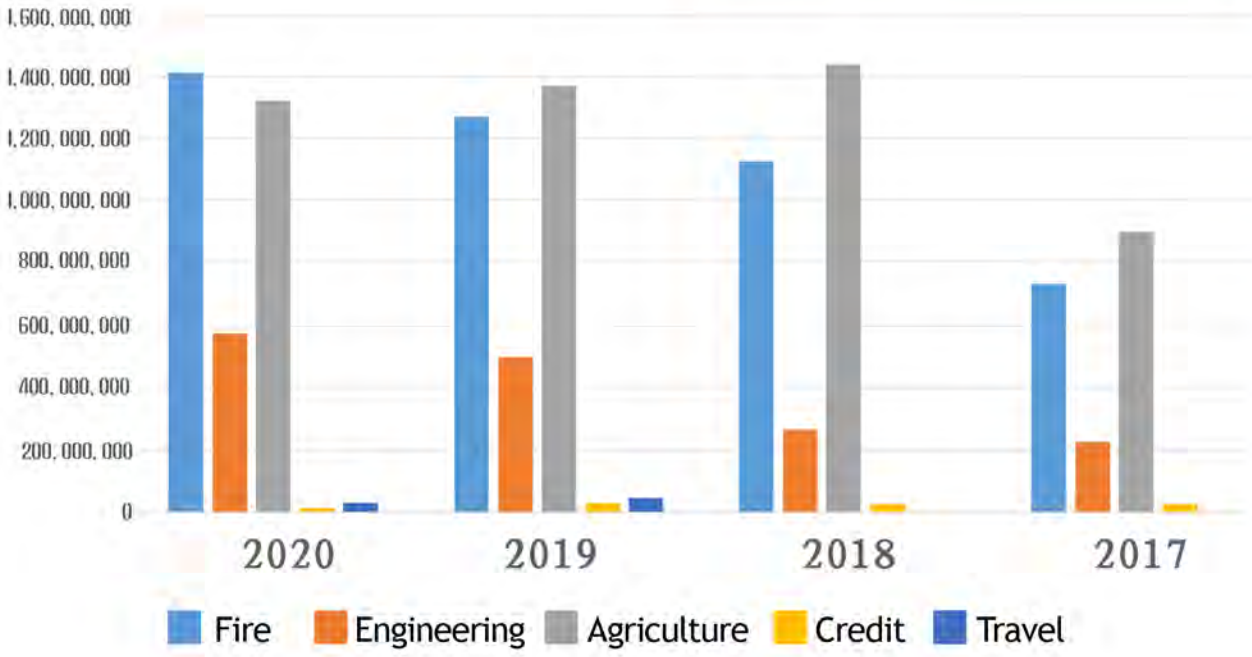
2. Gross Premium Written by Class

During the year, Fire insurance enjoys the biggest share of the total portfolio.

This is followed by Agriculture, Engineering, Travel and Credit insurance.

Premium Income by Class





3. Premium Income Growth Trends

KPW in Million

Class	2017		2018		2019		2020	
	GPW	Rate	GPW	Rate	GPW	Rate	GPW	Rate
Fire	689	249.4%	1,152	67.2%	1,282	11.3%	1,401	9.2%
Engineering	226	503.9%	262	16.0%	509	93.9%	595	16.9%
Agriculture	927		1,420	53.2%	1,395	-1.8%	1,346	-3.5%
Credit	7	17.9%	7	11.5%	7	2.1%	1	-87.1%
Travel	-		-		19		8	-58.7%
Total	1,849		2,842		3,213		3,351	

4. Portfolio in 2020

Fire Insurance

In 2020, the rapid growth in fire insurance segment continued to be a driving force behind a boost for the Company's overall business.

The Company took all necessary measures to innovate fire insurance business and improve the level of risk management, which bore fruit.

We served our customers to be insured including institutions and enterprises in such a way that their needs for cover against fire risk could be best suited as per their business features, type of properties, etc.

As a result, over 10,000 businesses took out fire insurance and the gross premium written in fire insurance rose by 9.2% to KPW 1,401 million year on year.

Insurance indemnification for the given type of insurance was KPW 1,010 million, representing an increase of 142% from KPW 416 million in 2019.

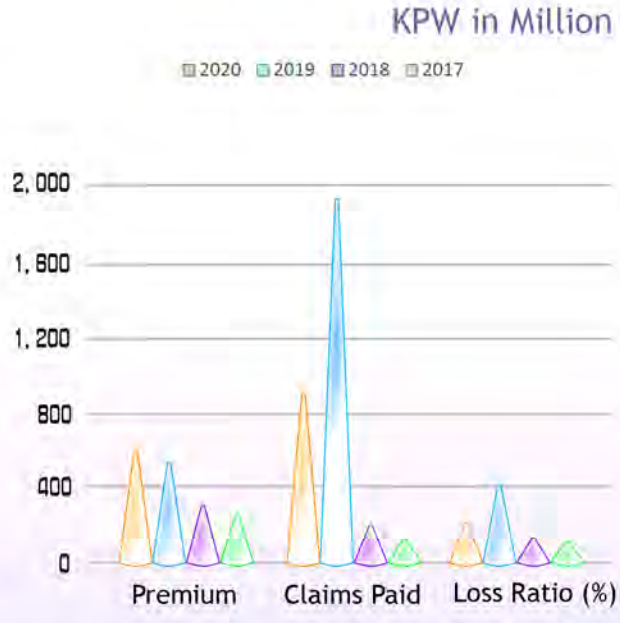
Loss ratio increased to 72.1% in 2020 from 32.4% in 2019, primarily due to the fact that the catastrophic typhoons in 2020 had resulted in a sharp rise in claim costs of the fire insurance segment.

Engineering Insurance

On the basis of analyzing the practical experience we and foreign insurers gained by conducting engineering insurance business, the Company made its tireless efforts for raising its position in engineering insurance market. The growth in engineering insurance sector was attributable to the rapid acceleration of construction and erection projects in various fields of the national economy.

The gross premium written of engineering insurance business climbed to KPW 594.7 million, which is a 16.9% increase compared to the previous year.

The claims from the engineering insurance segment of the Company amounted to KPW 896 million in 2020, representing a decline of KPW 1,029 million (or -53.5%) from KPW 1,925 million in 2019. Loss ratio decreased to 150.7% in 2020 from 378.3% in 2019, primarily due to the fact that the catastrophic typhoons had resulted in a sharp rise in claim costs of the engineering insurance segment for 2019. In 2020, the Company strictly controlled the underwriting risks and reduced the portion of certain high-risk business underwriting.

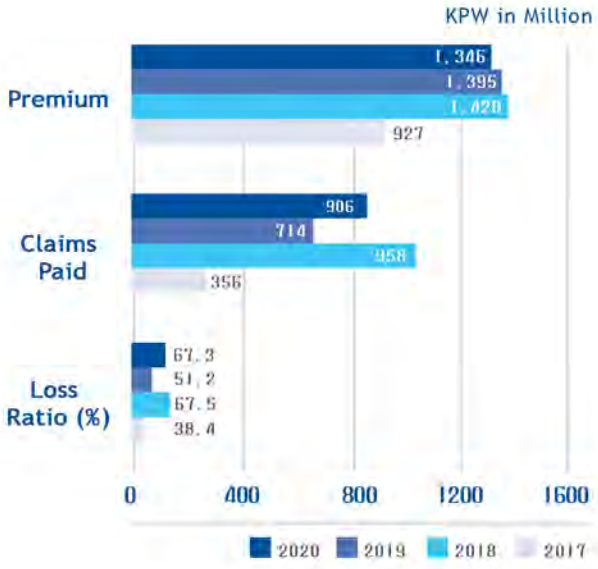


Agriculture Insurance

The agricultural insurance takes the second place after fire insurance in premium-wise portfolio of our Company.

The gross premium written in this field shrank to KPW 1,346.5 million in 2020, 3.5% down from the previous year.

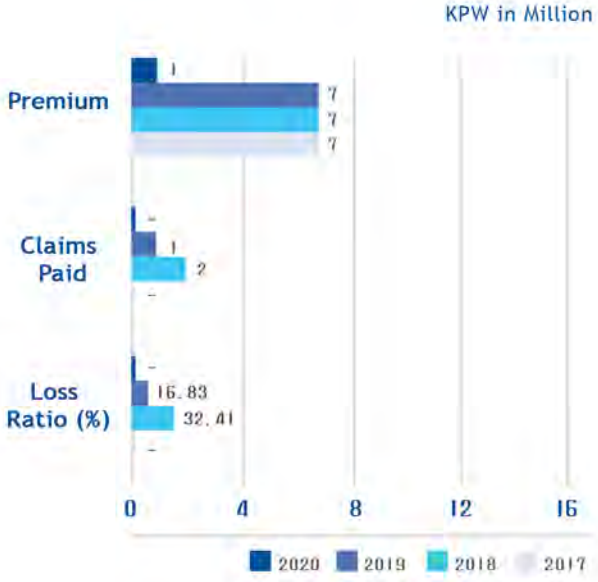
Insurance indemnification for given type of insurance was KPW 906 million, representing an increase of KPW 192 million (or 26%) from KPW 714 million in 2019.



Credit Insurance

Due to the world health crisis, the total transport volume of the domestic cargo market fell sharply and import and export business declined, thereby adversely affecting the insured portfolio of the credit insurance business of the Company.

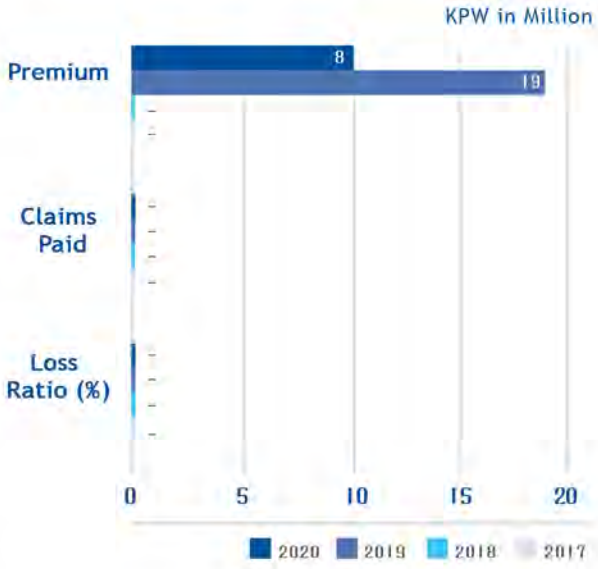
The gross premium written decreased sharply from KPW 7.4 million in 2019 to 1 million in 2020, which is equivalent to 12.9% of the former.



Travel Insurance

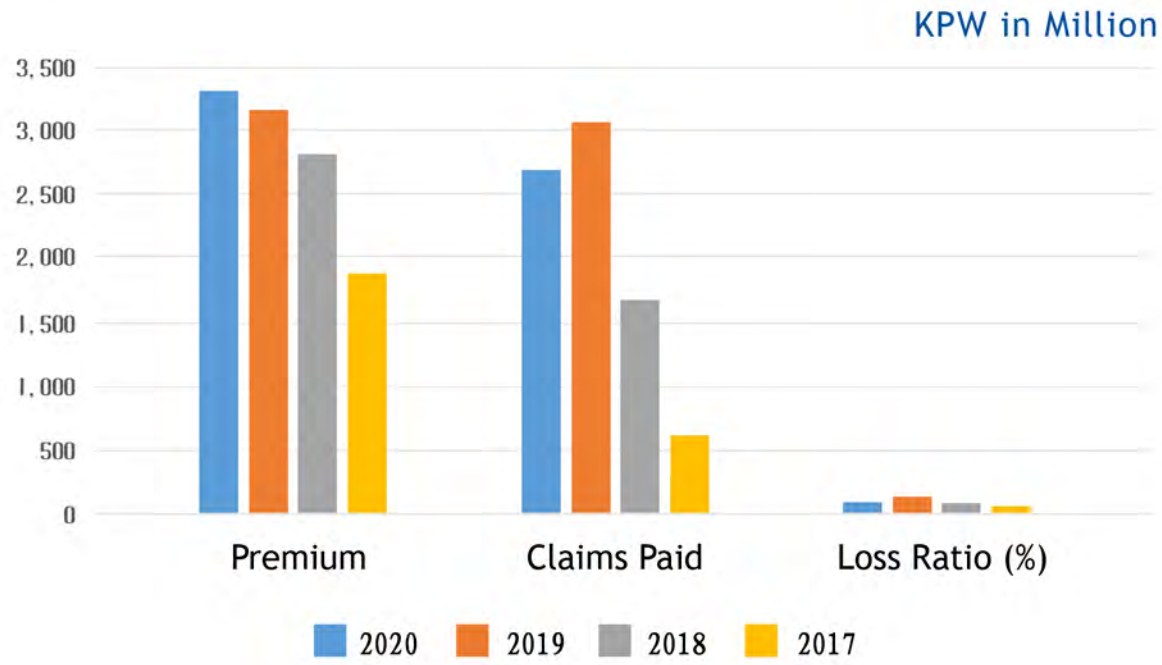
In recent years, lots of resorts of culture and rest have been built all over the country, so that the demands for Travel Insurance have continued to increase.

However, last year any measures adopted for frontier blockade and forbidding inland travel due to global pandemic, the Company's travel insurance portfolio decreased dramatically. The gross premium written in 2020 was KPW 7.9 million that is equivalent to 41.3% of KPW 19.2 million in 2019.



Overall

The Company's total premium income in 2020 went up by 4.0% to KPW 3,351 million, while claims paid of KPW 2,812.2 million were recorded which eventually showed the loss ratio of 91.9%.



CORPORATE PROFILE

1. Establishment and Principal Activities

Solid and Independent Insurer

- A non-life insurance underwriting firm fully capitalized in line with statutory requirement of the regulatory authority -State Insurance Commission.
- Established on 22nd August 2016 and commenced its operations in September the same year
- Carved out a niche for itself through transactions in non-life insurance underwriting including Fire, Engineering and Agricultural Insurance, amongst others

Principal Activities

- Principally engaged in providing customers with vrious kinds of insurance cover
- Both corporate and individual customers benefiting from our non-life insurance services

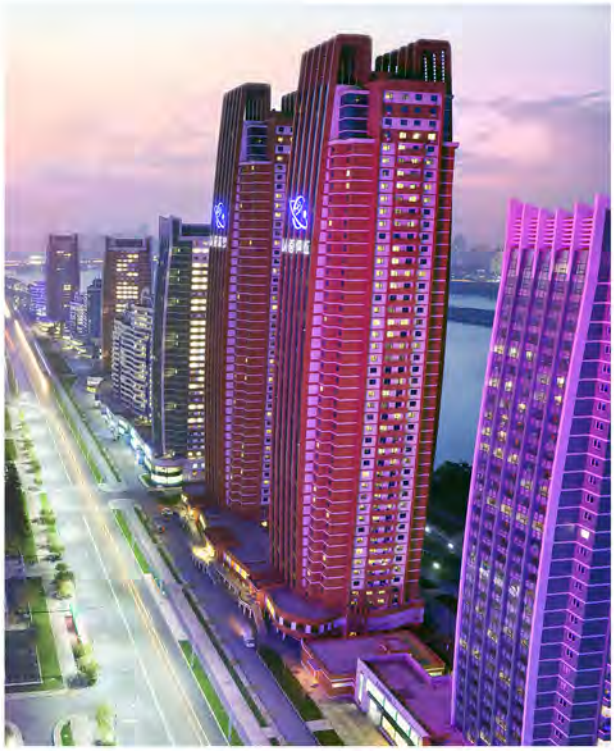
2. Insurance Programme

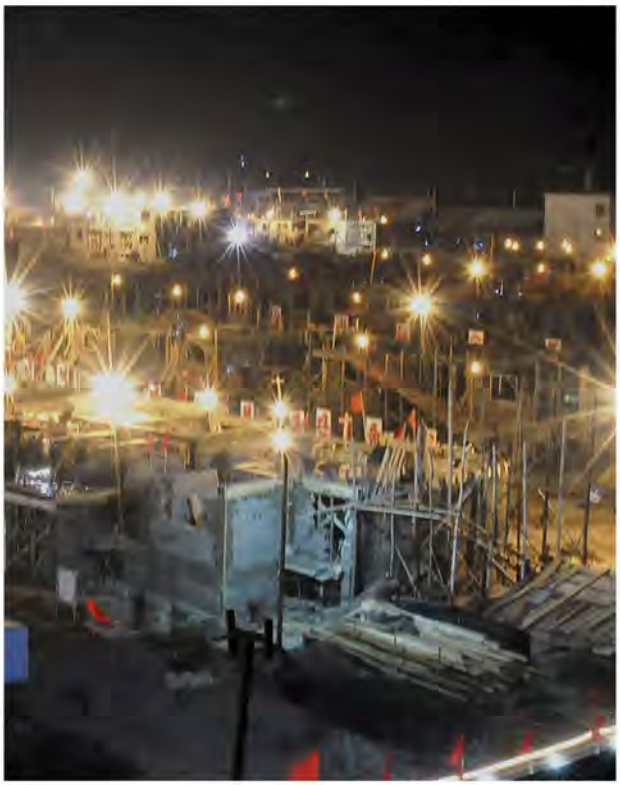
Fire insurance is by far the most essential insurance product sought by most economic entities and has the largest market share.

Fire insurance policies comprise of three policies such as fire insurance policy, fire business interruption policy and all-risk industrial risk policy and each policy will indemnify the loss caused by the inherent risks covered including material damage and loss of profit resulting from fire, explosion, lightning and natural catastrophes.

Everyone buying our fire insurance policies are always to live and work in happiness and peace.

In the future, the Company is going to add more lines to property insurance as befits the needs of all people for fire insurance coverage.





Engineering insurance includes machinery breakdown insurance, machinery breakdown & loss of profit insurance, civil engineering completed risks insurance and offers coverage for damage to and loss of machinery occurring in the course of construction. Competitive premium rate, deductibles and comprehensive insurance coverage are now applied to engineering insurance, and machinery breakdown & loss of profit insurance in particular to cater for the insureds' needs.

Streamlined and client-oriented application and claims process and more favourable terms of insurance have proved to be pivotal to the success of engineering insurance.

Based on our own experiences in insurance of Engineering risks and also due to analysis of practice of the companies in the insurance of Engineering risks and in view of tendencies of increased intensity and reduced terms of construction process, the company will continue to expand its position in the Engineering insurance market by launching insurance of larger and unique construction projects on the further improvement of technology of underwriting and supporting of the concluded construction risks insurance contracts.

The agriculture insurance continues to be the major source of income for the Company.

In agricultural insurance, we underwrite rice, maize, potatoes and industrial crops cultivated as main staples in cooperative farms. We are in constant move to expand our agricultural insurance into orchard farms, fish farms and aquaculture enterprises. The Company intends to apply comprehensive crop insurance coverage to cash crop and introduce weather-index insurance and livestock insurance in the coming year in order to satisfy various demands of farms for insurance.

Credit insurance covers not only commercial risks prevailing in international trade like importer's bankruptcy or failure of repayment but also non-commercial risks like payment obstacles, ban or restriction on foreign exchange and transmittance caused by severe economic turmoil in a debtor's country.

The Company will reinforce the client-centric philosophy, accelerate business innovations, and further improve the customer experience of credit insurance services.

Travel Insurance is gaining momentum thanks to the active development of tourism in the country. A lot of up-to-date recreational facilities such as Masikryong Ski Resort and Yangdok Spa Culture Resort have been built in recent years for our people's sake across the country. This has made it possible for our people's dream to come true to enjoy the best culture at the highest standards. Everyone looks forward to traveling to recreational facilities and scenic spots throughout the country, and the number of travelers is on the increase.

Being aware of the significance and long-term perspective of this insurance product, the Company will develop a number of complex measures and resolved a number of issues that will ensure for the Company the place of an absolute leader in this segment in a very short period.

3. Reinsurance Programme

The principle for retention and reinsurance cession is determined in consideration of the composite factors such as the status of risk and capital, volatility of the underwriting result and the reinsurance market environment. Internal guidelines for reinsurer's security are set up to avoid possible deterioration of reinsurance recoverables due to the reinsurers' insolvency.

In accordance with the guidelines, the Company selects the reinsurers with certain credit rating level or above to mitigate the credit risk. Furthermore, the cession to any one reinsurer is limited to avoid excessive accumulation.

The Company has a traditional underwriting principle - selecting risks with the following considerations.

- Examine underwriting result of acceptances periodically and reflect the result in our policy
- Evaluate the exposure quantitatively and stochastically utilizing models to underwrite natural catastrophic risks
- Diversify the portfolio to avoid significant accumulation or excessively uneven distribution of exposure over countries or regions.

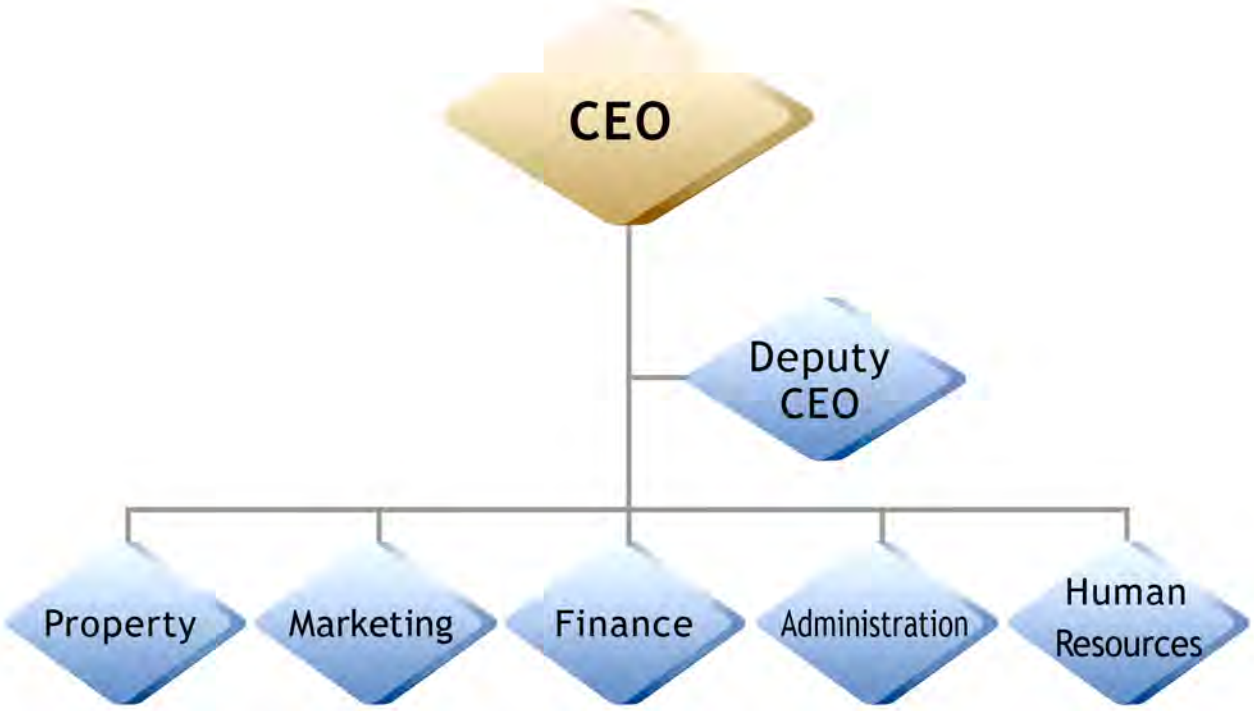
4. Sales Channel

With the head office in Pyongyang, the business network comprises 12 Regional Branches Offices and 108 local agencies throughout the country, which ensures maximum outreach and complete accessibility to its customer base.

It is tapping into this previously remote customer network thus ever-broadening its experience at the same time.

The optimization of the Company's sales structure went on with a view to increase the share of direct sales and sales efficiency through branches and agencies and the Company is expecting their contribution to be excellent and profitable.

5. Structure and Personnel



The Company adapts its internal organization to its business development requirements, in accordance with the established business policy.

Within the Company, the insurance-related activities are performed on functional and territorial principles. The performance upon the functional principle is organized through the Company Head Office. The performance upon the territorial principle is organized through the insurance Main Branch Offices.

Every staff enjoys the matrix structure of the company, which strongly contrasts with the conventional hierarchy structures.

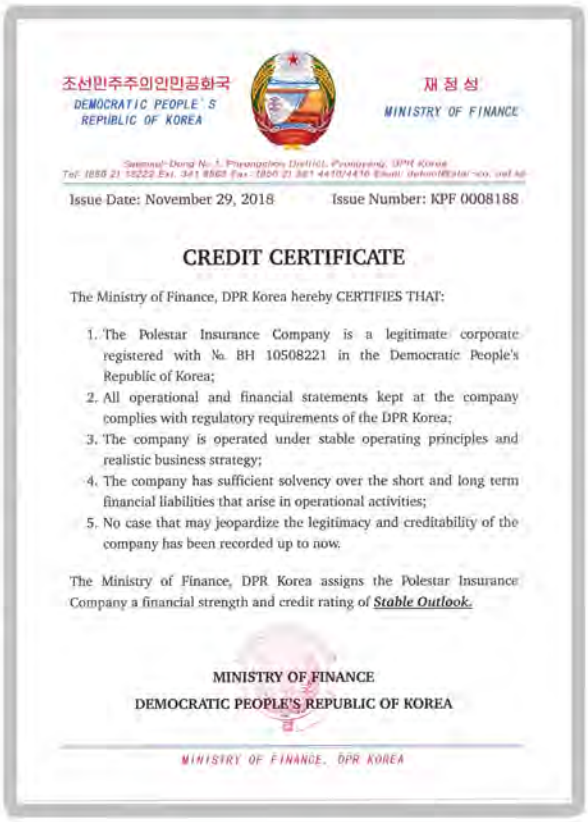
6. Efforts for International Marketing

(1) Domestic Credit Rating

In 2019, Ministry of Finance confirmed that the Company has excellent level of management and financial reliability.

This confirmation is the best domestic appraisal of the Company's finance and credit and it provides the Company with favorable conditions and circumstances for expansion of penetration and obtaining of clients in domestic insurance market.

Not content with the success PIC has already achieved, it will brace itself for the further development.



조선민주주의인민공화국
DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA

재 정 성
MINISTRY OF FINANCE

Issue Date: November 29, 2018 Issue Number: KPF 0008188

CREDIT CERTIFICATE

The Ministry of Finance, DPR Korea hereby CERTIFIES THAT:

1. The Polestar Insurance Company is a legitimate corporate registered with No. BH 10508221 in the Democratic People's Republic of Korea;
2. All operational and financial statements kept at the company complies with regulatory requirements of the DPR Korea;
3. The company is operated under stable operating principles and realistic business strategy;
4. The company has sufficient solvency over the short and long term financial liabilities that arise in operational activities;
5. No case that may jeopardize the legitimacy and creditability of the company has been recorded up to now.

The Ministry of Finance, DPR Korea assigns the Polestar Insurance Company a financial strength and credit rating of ***Stable Outlook.***

MINISTRY OF FINANCE
DEMOCRATIC PEOPLE'S REPUBLIC OF KOREA

MINISTRY OF FINANCE, DPR KOREA

(2) Membership

The Company is a member of the Federation of Afro-Asian Insurers & Reinsurers "FAIR", a professional organization that is aiming at promoting cooperation among insurance and reinsurance companies in Africa and Asia through the regular exchange of information, expertise and the development of reinsurance relations.

(3) International Credit Rating

In order to create a more favorable climate for entering the international reinsurance market, the Company is planning to push forward actively for crediting rating from authorized rating company which the Company will contact and provide with impartial and transparent relevant data.

HUMAN RESOURCES

Driving our Success

The entire staff are our most valuable resource and the greatest assets, helping us to achieve our goals and growth aspirations as well as gain a competitive advantage through strong customer interactions.

The Company demonstrates high levels of appreciation and trust towards its employees, who with their diverse qualifications and personalities ensure our business' success.

Policy

Utmost importance is given to our employees as they are the ones to undertake the biggest duty in carrying out the key policies of our new business.

For this reason, the primary goal of our human resources policy and practice is to identify our company's needs for personnel in line with its objectives and strategies and assist the creation of human resources that are open to change and are focused on the nearest success by recruiting high-quality people, motivating them, evaluating their performance, and encouraging interaction and communication among individuals and groups.

Performance Management

We have established the criteria for assessing the ability of employees and carry out a proper evaluation every month accordingly.

On the basis of the results of these performance evaluations, an employee's training needs are identified and a career plan is developed.

Training

Knowledge and technology are the main pillars on which the Company relys in realizing the desired development of the domestic insurance industry. Therefore, the Company's principal objective is to focus on adopting new technologies and providing its employees with the state-of-the art innovations through training and outstanding working environment.

Orientation training and basic insurance training are given to new-hires;
the training programs needed at any stage of their careers are identified for all employees so as to develop and equip them with the competencies called for by their positions.

The Company also helps its employees to prusue a career as insurance experts in the specific classes as well as managerial staff.

Looking ahead, we would constantly carry out a long-term plan to provide our clients with quality products and services exceeding their expectations.

FINANCIAL STATEMENTS

Statement of Financial Position

Statement of Financial Position as at 31st December 2020

All figures in KPW

ASSETS	2018	2019	2020
Cash and cash equivalents	**8,659,038,178**	**8,764,607,867**	**8,911,269,483**
Reinsurers' share of insurance contract liabilities			67,100,551
Account Receivables	14,210,525	7,395,000	23,018,530
Deferred acquisition costs			29,949,298
Prepayments	345,825	365,038	507,127
Property, plant and equipment	186,544,000	194,776,000	187,832,700
Intangible assets	12,207,040	13,412,960	13,071,664
TOTAL ASSETS	**8,872,345,568**	**8,980,556,865**	9,232,749,352
LIABILITIES AND EQUITY	**2018**	**2019**	**2020**
LIABILITIES			
Insurance contract liabilities	748,622,096	973,119,845	1,086,409,959
Provision for unearned premiums	710,822,096	895,619,845	998,309,959
Provision for outstanding claims	37,800,000	77,500,000	88,100,000
Other liabilities	**77,665,653**	**93,165,401**	5,689,538
TOTAL LIABILITIES	826,287,749	1,066,285,246	**1,092,099,497**
EQUITY			
Paid-up capital	3,000,000,000	3,000,000,000	3,000,000,000
Organization fund	2,000,000,000	2,000,000,000	2,000,000,000
Reserves	2,000,000,000	2,000,000,000	2,000,000,000
Retained earnings	601,805,492	1,046,057,819	914,271,619
Profit or loss for the period/year	444,252,327	(131,786,200)	226,378,236
TOTAL EQUITY	8,046,057,819	7,914,271,619	8,140,**649,855**
TOTAL LIABILITIES AND EQUITY	**8,872,345,568**	**8,980,556,865**	**9,232,749,352**

Income Statement

Income Statement for the Year Ended 31st December 2020

All figures in KPW

	2018	2019	2020
Net premium earned	**2,516,255,759**	**2,819,703,771**	**3,133,676,133**
Gross premium written	2,842,105,037	3,213,157,061	3,351,043,678
Change in provision for unearned premium	(253,249,923)	(184,797,749)	(102,690,115)
Premiums ceded	(72,599,355)	(208,655,541)	(176,128,620)
Change in reinsurers' share of provision for unearned premiums			61,451,189
Net claims incurred	**(1,745,143,480)**	**(2,808,090,201)**	**(2,675,959,683)**
Gross Paid loss	(1,721,554,005)	(3,057,030,319)	(2,812,201,173)
Reimbursement of claims for risks ceded to reinsurers		319,045,118	141,192,128
Change in Outstanding losses	(23,589,475)	(70,105,000)	(4,950,638)
Net Acquisition Costs	**(130,446,273)**	**(141,523,042)**	**(117,415,541)**
Net Insurance Business result	640,666,006	(129,909,472)	340,300,908
Other income	**30,462,840**	**32,214,679**	**31,005,313**
General and administrative expenses	**(35,652,665)**	**(32,990,408)**	**(46,956,741)**
Other Expenses	**(830,000)**	**(1,101,000)**	**(952,000)**
Profit/loss before payment to state	**634,646,181**	**(131,786,200)**	**323,397,480**
Payment to state	(190,393,854)		(97,019,244)
PROFIT/LOSS FOR THE PERIOD/YEAR	**444,252,327**	**(131,786,200)**	**226,378,236**

Cash Flow

Cash Flow Statement for the Year Ended 31st December 2020

All figures in KPW

	2018	2019	2020
Operating activities			
Cash generated from operations	942,470,264	115,007,609	246,927,325
Payment to state	(190,393,854)		(97,235,294)
Net cash flows from operating activities	752,076,410	115,007,609	149,692,031
Investing activities			
Purchase of property, plant and equipment	(624,000)	(8,232,000)	(1,526,300)
Purchase of intangible assets	(37,440)	(1,205,920)	(1,000,000)
Net cash flows from investing activities	(661,440)	(9,437,920)	(2,526,300)
Financial activities			
Net borrowing			
Net cash flows from investing activities			
Net change in cash and cash equivalents	751,414,970	105,569,689	147,165,731
Cash and cash equivalents at beginning of year	7,907,623,208	8,659,038,178	8,764,607,867
Cash and cash equivalents at end of year	**8,659,038,178**	**8,764,607,867**	**8,911,773,598**

AUDITOR'S REPORT

To CEO of Polestar Insurance Company

Report on the Financial Statements

We have audited the accompanying financial statements of Polestar Insurance Company (the Company) which comprise the Balance Sheet as at 31st December 2020 and the Income Statement and Cash Flow Statement for the year then ended as set out below.

The Company's responsibility for the financial statements

The Company is responsible for the preparation and fair presentation of these financial statements that give a true and fair view in accordance with the requirement of the Law of DPR Korea on Financial Management and the Public Accounts.

Auditor's responsibility

Our responsibility is to express an independent opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law of DPK Korea on Auditing.
Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditors' opinion

In our opinion, the accompanying financial statements give a true and fair view of the balance sheet of Polestar Insurance Company ("the Company") as at 31st December 2020, and of the Company's Income Statement and cash flows for the year then ended in accordance with the Law of DPK Korea on Auditing.

Han Myong Il, Director, Pyongyang Office of Auditors of DPR Korea
O Un Hyang, Manager, Pyongyang Office of Auditors of DPR Korea
Pyongyang, 25th March, 2021

When lost in the dark, you always need a GUIDING STAR

Please feel free to contact us, if interested.

Polestar Insurance Company

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